Ethanol-blending policy needs a sugar rush

Why the ambitious timetable may be delayed

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India's ambitious target of blending 10 per cent ethanol with petrol by 2022 (that is, three years from now) could go off track unless immediate measures are taken to correct the anomalies that have cropped up in this high-profile policy.

The policy, which could be a viable and long-term answer to the cyclicality in the sugar sector and a solution to India's bulging oil import bill, has run into rough weather at multiple levels. The principal problems begin with molasses supply from Uttar Pradesh and Maharashtra, which account for more than 65 per cent of the country's sugar production, and 67 per cent for molasses, the basic raw material for ethanol.

UP's sticky molasses policy

TAKE TWO
ANALYSIS BEHIND THE HEADLINES

Ethanol is a sugarcane byproduct generated during sugar production. Every tonne of sugarcane crushed yields 4-5 per cent molasses. Molasses is processed to make ethyl alcohol and methyl alcohol. The former is unfit for human consumption but methyl alcohol is principally used for making liquor by distilleries.

Last month, the government of Uttar Pradesh, the country's largest sugarcane producer, altered its policy to increase the amount of molasses sugar producer have to sell mandatorily to potable alcohol makers from 16 per cent in 2018-19 to 18 per cent in 2019-20. The previous quota revision occurred just two months ago (from 12.5 to 16 per cent).

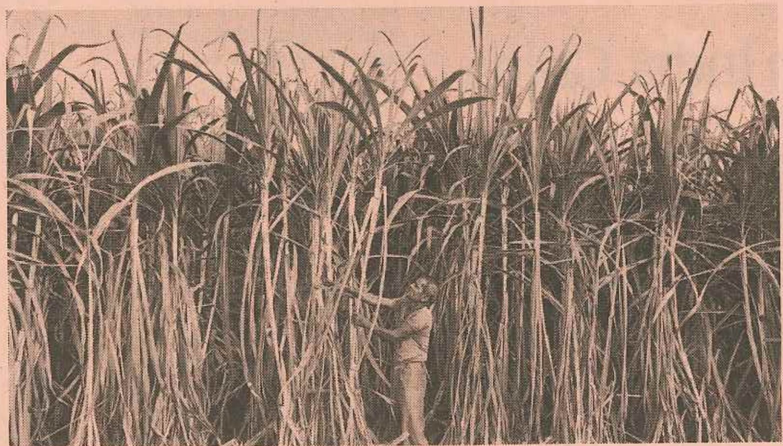
The rapid changes in the quota policy has caused much heartburn among sugar millers. They complain that not only has the amount reserved for potable alcohol makers increased but the allocation now includes molasses generated for captive production. That apart, the new reserve price for molasses for 2019-20 is ₹87 per quintal against a market rate of around ₹450 a quintal.

In sum, then, sugar mills in Uttar Pradesh will not only be required to sell a bigger quantity of molasses to potable alcohol makers, than they did last year, they will also have to sell at a price that is substantially lower than the market rate. In 2018-19, the total production of molasses in UP was estimated at 4.8 million tonnes.

The Maharashtra and Karnataka conundrum

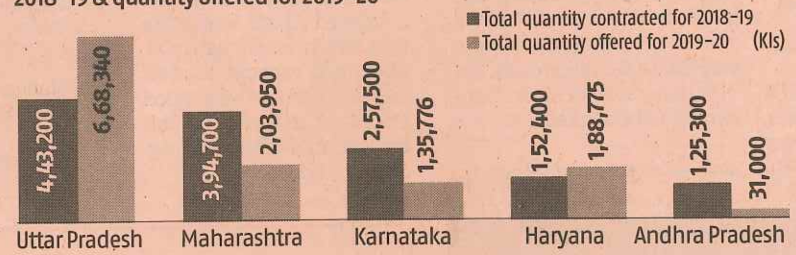
Sugar mills in the country's second largest sugar-producing state find it more profitable to produce rectified spirit and extra neutral alcohol (ENA) from molasses instead of ethanol. Both are produced from fermented molasses — but have a lower alcohol content. Rectified spirit has 95 per cent and ENA 96 per cent. Ethanol is basically alcohol of 99 per cent purity.

At present, rectified spirit is some states fetches ₹43-44 a litre, while ENA is quoting a price of ₹58-60 a litre. Converting rectified spirit to ethanol costs ₹5 a litre, which takes the cost per litre of the latter to around ₹49 a litre.



LOW SPIRITS

Comaparative statement showing the quantity of ethanol contracted for during 2018-19 & quantity offered for 2019-20



For 2019-20, the state-owned oil marketing companies (OMCs) are offering an ex-distillery price of ethanol derived from C heavy (or sugar content-free) molasses at ₹43.75 per litre, and for the relatively less produced B heavy molasses (which has some sugar content) at ₹54.27 per litre.

Stagnation

Over the past few months, the Centre has announced a series of incentives to boost ethanol production in sugar mills, which includes a big soft-loan package of over ₹15,000 crore. So far, however, only ₹800 crore is under various stages of disbursal

Officials said between July 19, 2018 and March 8, 2019, 349 ethanol capacity projects were given in-principle approval by the government of which just around 33 have reached the final disbursal stage because banks have found the balance-sheets of several sugar companies problematic.

On their part, sugar companies complain that the government occasionally raises fresh "unofficial" hurdles such as making lending conditional on whether they have cleared pending sugar levy obligations (the amount of sugar sold for subsidised distribution)

Compounding this is the fact that initial estimates suggest that India's sugarcane production in the 2019-20 season will be 6 per cent less than last year owing to drought in key growing states.

Lower cane availability means that mills have that much less molasses to divert for ethanol — a key reason most states have offered lower quantities of ethanol to OMCs in the first tender of 1.63 billion litres.

Karnataka-based sugar mills have offered 47.27 per cent less ethanol in 2019-20 over 2018-19, while those in Maharashtra have offered 48.3 per cent less ethanol. Only UP mills offered 51 per cent more ethanol than last year.

Overall, the 1.63 billion litres offered is 33 per cent less than the ethanol contracted in the 2018-19 season (the ethanol delivery season starts from December and ends in November).

Sugar mills were preparing to supply around six billion litres of ethanol in the next two or three years; now say that they can at best reach 4-4.5 billion litres as a result. This will imply a similar delay in India's ambitious timetable of blending 10 per cent ethanol with petrol by 2022, which requires more than 5 billion litres of ethanol annually.

"Unless the implementation issues are sorted out at the earliest, this fantastic policy which is meant to signal a definite move towards clean fuel could turn into a mess," a senior sugar industry official remarked.

Business Standard
5-12-2019