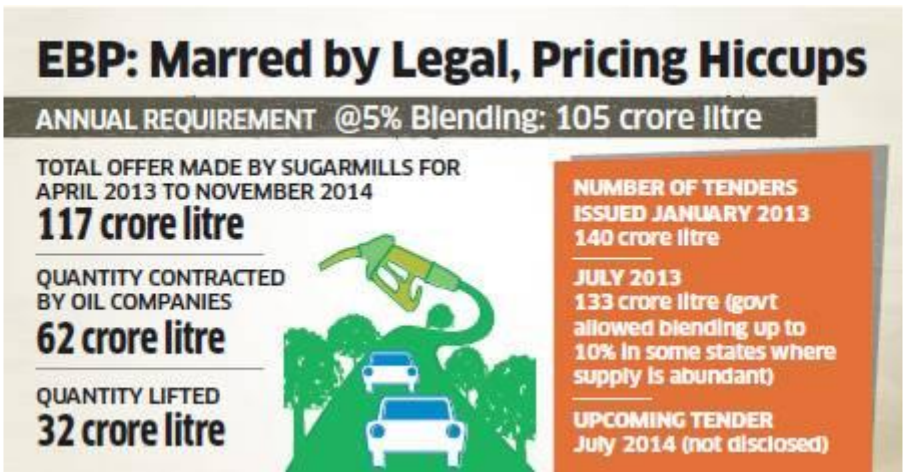
NEW DELHI: The government's ambitious plan to blend petrol with 5% ethanol has fallen far short of target, creating problems for sugarmills, which supply the alcohol, and the chemical industry, which is complaining that there is a big shortage in the market.

Against the requirement of 105 crore litre of ethanol for mandatory 5% blending with petrol, oil companies have contracted just 62 crore litre, half of which is yet to be lifted from depots.

Ethanol Blending Programme (EBP) was launched to promote green fuel and reduce the oil import bill. The sugar industry has estimated that oil companies could have easily saved Rs 370 crore on their oil import bill if they had blended the 62 crore litre supplied by sugarmills in the past year.



While oil companies cite 'procedural delays' in lifting the ethanol offered by the supplier sugarmills, the latter is unable to regularise its ethanol production and supply due to the same.

"When a mill has offered a particular amount to the oil companies for EBP, it cannot contract it anywhere else. So, if the delay is over six months, the quantity promised to oil companies gets stuck," said Abinash Verma, director general, Indian Sugar Mills Association (ISMA).

The Cabinet Committee on Economic Affairs in November last year mandated 5% ethanol blending in petrol sold after June 30, 2013. It also allowed oil companies to negotiate the price with domestic and overseas suppliers of the bio fuel.

A senior official with Indian Oil Corporation said that such a huge amount of ethanol procurement requires time and resources. "It's just been a year since we issued the first tender for procuring ethanol. Such an ambitious programme needs time more than this," said the official requesting anonymity.

The programme has been marred by legal and pricing hiccups throughout last year. To meet their annual demand, oil companies floated two tenders in January and July last year to procure ethanol from sugarmills last year.

While the supply from the first tender was purchased in the price band of Rs 39-42 per litre, oil firms decided in January 2014 that they would procure ethanol from only those bidders who match their benchmark price of Rs 44 per litre. On this basis, they also rejected 36 crore litre of ethanol supply from sugarmills.

In the meanwhile, the chemical industry filed three cases in the Competition Commission of India (CCI). Two were quashed while one is with the Supreme Court. In its appeal to the apex court, Indian Glycols has alleged cartelisation by sugarmills and oil companies and also submitted that with limited availability of molasses-based ethanol in the country, any diversion of ethanol e.g., to EBP "shall adversely affect the very existence of the chemical industry in India."

"The EBP has faced hassles from all corners, be it price issue with mills, CCI case filed by chemical industry or just procedural delays due to inter-state policy mismatch," said an IOCL official.

Oil companies are supposed to get excise permission from both the supplier and domestic state, which they assert is a "time-consuming task."

The Indian sugar industry has the capacity to produce 250 crore litre of alcohol annually. Its major buyers are chemical industry, whose demand is 60 crore litre, potable alcohol industry, which sources 110 crore litre, and oil companies need around 100 crore litre annually.