

SPEECH ON THE OCCASION OF WORKSHOP ON ETHANOL ON 22nd JANUARY 2016

I have great pleasure and honour to welcome the Hon'ble Minister of Petroleum and Natural Gas, Mr. Dharmendra Pradhan, to this workshop on fuel ethanol. We all know how positive Mr. Pradhan has been on the ethanol blending with petrol programme. I have no hesitation to mention that along with the Hon'ble Prime Minister, Mr. Pradhan has been instrumental in shaping up the ethanol blending programme of the country to its present form. I don't think it would have been possible to achieve what we have achieved today, without his support, along with two other very important Ministers of NDA Government, Mr. Nitin Gadkari and Mr. Ram Vilas Paswan.

2. All of us sitting here are aware that the ethanol blending programme in India was initiated by the NDA Government in 2002. However, due to various reasons it did not take off. It was re-introduced by the Government in 2007 with a mandatory 5% ethanol blending and a fixed pricing policy. However, implementation of the mandatory ethanol blending programme did not happen as desired. The pricing policy of ethanol was changed in 2011 from a fixed pricing policy to open tender policy. The oil marketing companies also adopted an internal policy of a benchmark price, which then became the maximum ceiling price at which the oil companies purchased ethanol from us, even though the country had an open tender policy to discover the prices and suppliers.

3. Unfortunately, despite a mandatory blending programme of 5%, which meant that the country should have compulsorily blended 5% ethanol with petrol, we struggled at 2 to 3% blending between 2007 and 2015. The open tender policy did not work very well because of several rounds of negotiations on the pricing, and delayed finalization of tenders and contracts. It sometimes took 4 to 6 months also to finalise tenders which did not instill enough confidence about the programme amongst the ethanol producers and suppliers. We were hesitant in committing ethanol quantities as per our production capacities, due to fear of delayed finalization of tenders and lack of enough time to make the supplies. That was one very important reason why we all struggled to achieve the mandatory level of 5% blending in the country.

4. The importance of this renewable fuel produced from a by-product of sugarcane was recognized by our Hon'ble Prime Minister Mr. Narendra Modi, immediately on assumption of charge.

5. The policy of open tenders was changed by your Government Sir, within 6 months of assuming power, when in December 2014, Government announced adoption of a fixed pricing policy again. The most important point which was recognized by your Government Sir, is the fact that ethanol being a value added product from molasses, which in turn, is a byproduct of sugarcane, would directly benefit our sugarcane farmers across the country. The sugarcane price fixed by the Central Government takes into account the imputed value of molasses and, therefore, since a better price for ethanol means a better price for molasses, it translates into good price for sugarcane. Therefore, the decision of the Government to have a fixed price for ethanol of Rs. 48.50 to Rs. 49.50 per litre ex-factory, without linking it to the crude oil price, and recognizing the fact that the farmers should get FRP on time, is a very important step in the right direction by this Government. It is, therefore, not surprising that several farmers' Associations across the country have applauded this decision of the Government.

6. Sir, the fixed pricing policy was adopted last year only in the middle of the season. Therefore, the industry could not participate to the extent that we would have wanted, but we have moved up quite significantly from the previous years to reach around 3.5% blending of petrol consumption in the country. The current season is the first season where the fixed pricing policy of ethanol, linked more to the sugarcane price than to the crude oil price, is being implemented for the full sugar season. It is because of that rate that the industry has committed to supply around 120 crore litres, which will be more than 4% of the ethanol blending percentage with the petrol. I can assure you Sir, that a few more distilleries are coming up and with cane crushing at its peak now, some more ethanol may be offered in the next EoI that the OMCs would be inviting in the next month or so. Sir, on behalf of the industry, I can submit before you that this would be the first year when we would be able to achieve very close to 5% ethanol blending in the country.

7. I would like to also mention a few other benefits that accrue from ethanol, in addition to the benefits that the sugarcane farmers and the sugar industry get. First and foremost is that at a supply of 120 crore litres, which is the current level of contracts, the country is able to reduce its net oil import bill by almost Rs. 5500 to 6000 crore. The saved petrol can then be exported to get some extra foreign exchange earnings. Quite importantly, ethanol has about 30% oxygen, which in turn, helps the balance fossil fuel burn much better within the engine. This extra and efficient burning of the fossil fuel within the engine, due to presence of ethanol, improves two things. First, it reduces the emissions, which in turn, means that ethanol reduces pollution produced from fossil fuels. It is very important to note that when the country is fighting against pollution from transport vehicles, ethanol can play a very positive role in reducing the pollution. The second advantage due to the more efficient burning is that at 10% ethanol blending with petrol, the mileage for the car users is better. These are the facts established from studies conducted by IIT, Delhi as well as the R & D centre of Indian Oil Corporation Ltd.

8. In other words Sir, I do not have any hesitation in saying that ethanol is a “wonder” fuel, which is not only good for the farmers of the country, but also for the sugar mills and the ordinary citizens who can then breathe more freely.

9. While there is need to make continued efforts to increase ethanol production and ethanol blending with petrol, there is need to also, at the same time, look at improved car technologies which are more energy efficient. During our AGM in December 2015, the Hon’ble Minister for Road Transport and Shipping, Mr. Nitin Gadkari, had said that the Government is examining possibilities of manufacturing vehicles in India, which can run on higher ethanol blend percentages. Such flexi-fuel cars are required for the future in India. If we look at Brazil, which is considered to be a pioneer in replacing petrol with ethanol, over 95% of the cars sold are flexi-fuel cars which can run on any ethanol blends going upto 100% pure ethanol.

10. If one goes to Brazil, one can see separate outlets at the petrol pumps for petrol, which are mostly blended with petrol at around 27%, and separate outlets for pure ethanol. The consumer himself there chooses what percentage of petrol and ethanol he

needs to put in his car, depending on the price of both. This is the future that we would like to foresee and support in India too. We know that it may take few years for us to reach that stage, but let me assure you Sir that from the industry's side, we will make our best efforts for the same. You will agree that all renewable energy or fuel, including ethanol production and supplies, need positive Government policies, financial support and right kind of incentives. We have to learn from the experience of Brazil and USA, on how, with Government support and help, the ethanol production and supplies have really grown enormously in the last few decades. We need to learn lessons from these two countries.

11. There is another very important example that we have, now from Thailand, where the sugarcane farmers are small and marginal like Indian farmers. Thailand has moved beyond 10% blending to E20 and E85 blended petrol in the country. The model in Thailand is again worth studying for adoption in India. I may mention to you Sir, that the Thailand Government has an "Oil and Conservation Fund" from which the E85 and E20 fuels are subsidized. The E85 is subsidized with a contribution from the Fund of over 11 Thai Baht per litre, whereas E20 is subsidized by 1 Thai Baht per litre. Interestingly, the money in the Fund comes from the tax collected from E10 fuel and unblended petrol, which are taxed at around 3 to 4 Thai Baht per litre and over 10 Thai Baht per litre respectively. Sir, may I request you to get this model of Thailand examined for adoption in India to help us to move to higher blending percentages.

12. The credit for removal of excise duty from ethanol goes to you and the Hon'ble Prime Minister. The additional incentive of around Rs. 5 per litre due to removal of excise duty from ethanol and making it cenvatable, is encouraging the sugar industry to invest more and more in increasing their distillation and storage capacities. Diversion of 'B' heavy molasses, which we are currently using to make sugar, can increase ethanol availability, to allow us to blend even upto 15% with petrol. However, this will take some time because distillation capacities and storage capacities will need to be developed. The current procedure for environmental clearance means a total lead time of almost 16 to 18 months to establish a new distillery or expand the current capacities. It would

certainly be a good idea to examine how we can reduce the time for environmental clearance.

13. Diversion of 'B' heavy molasses into ethanol, whenever there is surplus sugar not required within the country, can help balance sugar production and yet give extra ethanol for the blending purpose. The sugarcane prices have been increased quite steeply in the last few years, because of which the returns to farmers is substantially higher from sugarcane as compared to other crops. Therefore, we do not expect a reduction in sugarcane production in the next few years, which in turn, means surplus sugarcane for diverting 'B' heavy molasses into ethanol. Unless, obviously, the weather does not support in a season or so.

14. Sir, one very important aspect which needs to be addressed is the movement of denatured ethanol for blending with petrol. There are detailed procedures required to be followed to get excise permissions for dispatching ethanol from factories. When inter-state movement of ethanol is involved, the permissions become more difficult, since No Objection Certificate will have to be obtained from the importing State too. Additionally, there are several States which are levying inter-state import and export fees, denaturant fees, VAT on ethanol etc.

15. These taxes and duties on denatured ethanol is in violation of the provisions in the Indian Constitution, which allows the State Governments to legislate and levy duties only on alcohol or liquor for human consumption. Denatured ethanol can not be consumed and can only be utilized for blending with ethanol. Therefore, State Governments need to be convinced on not levying any taxes and duties on denatured ethanol and not delaying permissions on movement of the same, both within the State and inter-State. Sir, this is something very important for the success of the programme, as more than 80% of the ethanol is being produced and supplied from 3 States, namely, Uttar Pradesh, Maharashtra and Karnataka and moved to States across the country.

16. Another important factor which needs to be considered by you, Sir, is that the current prices for ethanol fixed by the Government, covers distances upto around 450 kms. If ethanol is to be moved from say Maharashtra to Chhattisgarh or Odisha and Uttar Pradesh to Rajasthan, Madhya Pradesh, Jharkhand or West Bengal, the suppliers

may have to bear extra burden on transport cost. Therefore, our request to you Sir, is to consider compensating the suppliers for long distance supplies.

17. Lastly Sir, out of 530 sugar mills in the country, only about 130 sugar mills have capacities to produce fuel ethanol. If we need to move to 10% blending and beyond, more and more sugar mills will need to create facilities to produce ethanol. You are aware of the current weak financials of the sugar mills of the country. Due to lack of surplus money and continued losses in the last few years, it is important that there is an extra incentive to attract more capital into the industry. Several banks have not been willing to extend loans to the sugar mills due to weak balance sheets. Therefore, we have a suggestion which we need to submit before you, and that is that ethanol is included in the "priority sector lending" of banks. The banks would be willing to extend loans to this industry for setting up distilleries or expanding the current capacities, as well as the capital can be made available to us at a much lower interest rate. This will be a big step to attract more investments to increase ethanol production capacities in the country. I would request you Sir, to very seriously consider this suggestion at the earliest.

18. In the end, I would once again thank the Hon'ble Prime Minister Mr. Narendra Modi for his leadership and the strong positive steps taken by the Government to encourage ethanol production and blending in the country. I would like to congratulate you and extend my gratitude for all these steps taken in the last one year for this programme, and would expect continued support in the near future also.
