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Report Name: Indian Government Approves Interest Subvention Scheme for Ethanol Distilleries

Country: India

Post: New Delhi

Report Category: Biofuels, Policy and Program Announcements, Agriculture in the News, Sugar

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Report Highlights:

On December 30, 2020, the Government of India's (GOI) Union Cabinet approved an interest subsidy of USD $626 million (INR 4573 crores) for augmenting its domestic ethanol production capacities. The announcement comes as India attempts to adhere to both its immediate and long term ethanol blending goals (E-10 by 2022 and E-20 by 2030)

BACKGROUND:

On December 30, 2020, the Government of India (GOI) approved an interest subvention[1]grant of $626 million (INR 45.7 billion, or 4573 crores). This announcement comes as the GOI previously announced a medium-term blend mandate (E-15 by 2026) while continuing to adhere to both its immediate and long term blend goals (E-10 by 2022 and E-20 by 2030). Realizing that the existing ethanol distillation capacity is insufficient to accommodate surplus sugar as a feedstock to produce ethanol and supply it to Oil Marketing Companies for blending with gasoline, the Indian government has again reemphasized ethanol production using alternative viable feedstocks like cereals (rice, wheat, barley, corn and sorghum) along with sugarcane and sugar beet to achieve its blending mandates. The government also continues to encourage 1-G ethanol production and promoting fuel-grade ethanol as an indigenous, non-polluting fuel that could possibly help savings on India's oil import bill and sugarcane subsidies.

Under the modified scheme, the GOI would bear the interest subvention for five years. The modified scheme predicts interest disbursements for five years, including a one year moratorium against the loan availed by project proponents from banks at an interest rate of six percent annually, or 50 percent of the rate of interest charged by the banks (whichever is lower). The subsidy intends to augment ethanol capacities for the following categories:

- Establishing new, or expanding the capacity of existing grain-based distilleries that are stand-alone (whether attached to sugar mills or standalone) and use dry milling process;
- Construction of new, or expanding the capacity of existing molasses-based distilleries to produce ethanol and for installing any method approved by Central Pollution Control Board for achieving Zero Liquid Discharge (ZLD);
- Construction of new, or expanding existing capacity of dual feed distilleries;
- Converting existing molasses-based and grain based distilleries (standalone or attached to sugar mills) to dual feed (molasses and grain/or any other feed stock producing 1G ethanol);
- Construction of new, or expanding capacity of existing distilleries using alternative feedstocks like sugar beets, cereals, sweet sorghum etc. to produce 1G ethanol; and
- Installing Molecular Sieve Dehydration (MSDH) column for converting rectified spirit to ethanol in existing distilleries.

As a part of this initiative, the GOI aims to create additional employment and capitalize on its larger "Self-Reliant India" objectives. However, past ethanol investments elicited a tepid response from industry, which included soft loans up to $2.4 billion (INR 18600 crores) and loan interest subsidies of $534 million (INR 4045 crores) to finance 362 projects (constituting of 349 sugar mills and 13 molasses based stand-alone distilleries). However as of June, 2020, 166 sugar mills applied for the financial opportunities, of which 57 received approvals for ethanol expansion projects, with 37 mills receiving final funding (For additional information see: GAIN IN2020-0122).

Source: Press Information Bureau

[1]Interest subvention is the subsidy offered on interest rates, and is a form of waiver of some percentage of interest. It is typically offered on several lending schemes by the government to promote a particular industry and general public interest

Press Release:

Posted On: 30 DEC 2020 3:44PM by PIB Delhi

There has been surplus production of sugar in the country since sugar season 2010-11 (except reduction due to drought in sugar season 2016-17); & sugar production is likely to remain surplus in the country in coming years due to introduction of improved varieties of sugarcane. In the normal sugar season (October- September) about 320 Lakh Metric Tonnes (LMT) of sugar is produced whereas, our domestic consumption is about 260 LMT. This surplus sugar of 60 LMT in normal sugar season put pressure on domestic ex-mill prices of sugar. The excess stocks of 60 LMT which remain unsold also block funds of sugar mills to the tune of about Rs. 19,000 crore thereby affecting liquidity positions of sugar mills resulting in accumulation of cane price arrears of farmers. To deal with surplus stocks of sugar, sugar mills have been exporting sugar, for which Government has been extending financial assistance. Moreover, India being a developing country can export sugar by extending financial assistance only up to year 2023 as per WTO arrangements.

So, diversion of excess sugarcane & sugar to ethanol is a correct way forward to deal with surplus stocks. Diversion of excess sugar would help in stabilizing the domestic ex-mill sugar prices and will also help sugar mills to get relieved from storage problems. It will improve their cash flows and facilitate them in clearance of cane price dues of farmers; and will facilitate mills to function in the coming years.

Government has fixed target of 10% blending of fuel grade ethanol with petrol by 2022, 15% blending by 2026 & 20% blending by 2030. With a view to support sugar sector and in the interest of sugarcane farmers, the Government has also allowed production of ethanol from B-Heavy Molasses, sugarcane juice, sugar syrup and sugar; and has been fixing the remunerative ex-mill price of ethanol derived from C-heavy molasses, B-heavy molasses and ethanol derived from sugarcane juice/ sugar/ sugar syrup for ethanol season. For ethanol supply year 2020-21, Government has now increased the ex-mill price of ethanol derived from various feed stocks.

To increase production of fuel grade ethanol, Govt. is also encouraging distilleries to produce ethanol from maize; & rice available with FCI. Government has fixed remunerative price of ethanol from maize & rice.

Government is also planning to prepone achievement of 20% blending target by year 2025 and onwards. However, the existing ethanol distillation capacity in the country is not sufficient to divert surplus stocks of sugar & to produce ethanol to supply to Oil Marketing Companies (OMCs) for blending with petrol as per the blending targets fixed by Government of India.

Further the blending targets cannot be achieved only by diverting sugarcane / sugar to ethanol; & 1st Generation (1G) ethanol is required to be produced from other feed stocks like grains, sugar beet etc for which the present distillation capacity is also not sufficient. Therefore, it is an imperative need to enhance ethanol distillation capacity in the country for producing 1st Generation (1G) ethanol from feed stocks such as cereals (rice, wheat, barley, corn & sorghum), sugarcane, sugar beet etc.

Hence, the Government has taken following decisions:

1. To bring a modified scheme for extending interest subvention to augment ethanol production capacity for following categories:
   a. Setting up grain based distilleries / expansion of existing grain based distilleries to produce ethanol. However, benefits of interest subvention scheme to be extended to only those stand alone distilleries which are using dry milling process.
   b. Setting up new molasses based distilleries / expansion of existing distilleries (whether attached to sugar mills or standalone distilleries) to produce ethanol and for installing any method approved by Central Pollution Control Board for achieving Zero Liquid Discharge (ZLD).
   c. To set up new dual feed distilleries or to expand existing capacities of dual feed distilleries.
   d. To convert existing molasses based distilleries (whether attached to sugar mills or standalone distilleries) to dual feed (molasses and grain/ or any other feed stock producing 1G Ethanol); and also to convert grain based distilleries to dual feed.
   e. To set up new distilleries / expansion of existing distilleries to produce ethanol from other feed stocks producing 1G ethanol such as sugar beet, sweet sorghum, cereals etc.
   f. To install Molecular Sieve Dehydration (MSDH) column to convert rectified spirit to ethanol in the existing distilleries.
2. Government would bear interest subvention for five years including one year moratorium against the loan availed by project proponents from banks @ 6% per annum or 50% of the rate of interest charged by banks whichever is lower.
3. Interest subvention would be available to only those distilleries which will supply at least 75% of ethanol produced from the added distillation capacity to OMCs for blending with petrol.

Proposed intervention would enhance production of 1G ethanol from various feed stocks thereby, facilitate in achieving blending targets of ethanol with petrol and would promote ethanol as a fuel which is indigenous, non-polluting and virtually inexhaustible and would improve the environment and the ecosystem and result in savings on Oil Import Bill. It will also ensure timely payment of dues to farmers.

Attachments:

No Attachments.